

# **CITY OF SAN JOSE**

## **Development of Strategies to Address the General Fund Structural Deficit**

### **Strategy Development Progress Report**

**15 November 2007**

# THIS PRESENTATION

- Project Update
- Strategy Development Progress
- Top Priority Strategies
- Next Steps

# PROJECT UPDATE

- Work Plan Update
- General Fund Structural Deficit Update

# Work Plan Update

Key Milestones	
October 11 – Taskforce meeting to review work plan and initial	✓
October 17 – BSAG meeting to review work plan and initial	✓
October 22 – Stakeholders meeting	✓
October 26 – Survey opens	✓
November 8 – Taskforce meeting on revised strategies	✓
November 15 – BSAG meeting on revised initial strategies and	
November 28 & 29 – Stakeholder meetings	
December 12 – Taskforce meeting to finalize strategies	
December 21 – Draft report	
January 7 – Report released	
January TBD – Report presented to BSAG	
January 19 – Report presented at Neighborhood Association / Youth Commission Priority Setting Session	

# November Forecast Update

## 2009-2013 Preliminary General Fund Shortfall (\$ in Millions)

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
(\$24.8)	(\$41.8)*	(\$2.4)	(\$6.4)	\$3.2

\* Reflects sunseting of Emergency Communication System Support Fee (\$23.4 million)

# General Fund Structural Deficit Update

## General Fund Structural Deficit (\$ in Millions)

	2008- 2009	2009- 2010	2010- 2011	2011- 2012	Total
Projected Shortfall (Nov 2007 Forecast)	\$24.8	\$41.8	\$2.4	\$6.4	\$75.3
Unmet/Deferred Infrastructure & Maintenance Needs*	\$39.7	-	\$3.2	(\$2.7)	\$40.2
GASB 43/45 (General Fund Retirement Benefits)**	\$21.6	-	-	-	\$21.6
				Total	\$137.2

\* Assumes one-time needs of over \$500 million in the General Fund (\$900 million all funds) are addressed.

\*\* City's 50% General Fund portion of remaining annual requirement for full pre-funding (\$57.4 million); current annual City/employee contribution at \$43.9 million.

# STRATEGY DEVELOPMENT PROGRESS

- Key Questions
- Stakeholders Meeting Update
- Survey Process and Status
- Preliminary Benchmarking
- Strategy Development Overview

# Key Questions

- What are the priorities and suggestions from stakeholder groups?
- Is the City “at market” in terms of revenues, expenditures and other key variables?
- Are there good ideas being used in other jurisdictions that can be replicated in San Jose?
- Can strategy have a significant impact within three year timeframe to eliminate deficit?



# Stakeholders Meeting Update

- Four groups (Senior Staff, City Labor Alliance, Employees, Community / Business)
- 85 participants (55% of the 155 stakeholders invited)
- Approximately 122 new strategy ideas submitted
- Participants “dot-voted” on preferences
- Management Partners categorized strategies into three classifications; new, redundant with existing strategies or non-responsive as deficit reduction strategies
- 52 new strategies were identified for further analysis

# Survey Process and Status

- Survey conducted between 10/26/07 and 11/09/07
- 2033 employee responses and 656 community responses
- Available to employees via intranet / internet and to community, neighborhood and business groups via internet
- Translated into Spanish and Vietnamese
- Disseminated via payroll flyer, City Manager email, press release and City website
- 13 questions (8 questions from Community Budget Survey, 4 questions from initial strategies list and 1 question open-ended)
- Not scientific, but one of many ways to gain feedback

# Preliminary Survey Results

- Both employee and community responses appear to show greater awareness of budget deficit than was the case in January 2007 community budget survey
- Community and employee responses differ in terms of preferred strategies for coping:
  - Employees responses favor new / increased revenues and expenditure controls / shifts
  - Community responses favor service delivery changes and expenditure controls / shifts
  - However, both groups of respondents see service delivery reductions as the “least best option”

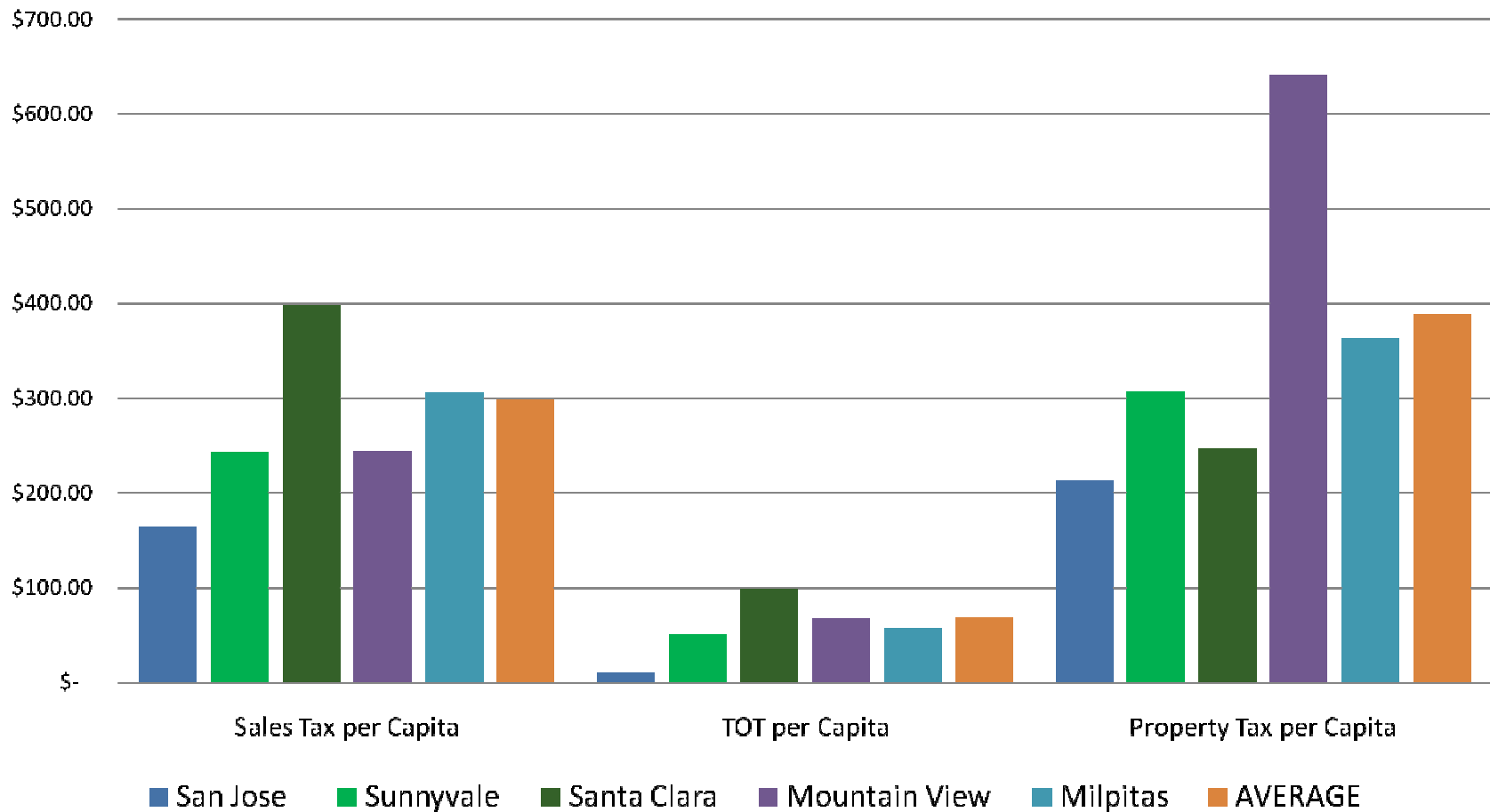
# Preliminary Benchmarking

- General Fund Revenues
- General Fund Expenditures
- For Peers and Neighboring Cities  
(dropped San Francisco)
- Per Capita Analysis
- See Appendix for Details

# Relative to the Peer Cities

- San José is below the market rate for business tax and transient occupancy tax, especially compared to large city peers
- San José is about average for sales and property tax revenues
- San José is somewhat below average for utility tax revenues for cities having this tax
- San José is about average for conveyance tax, but tax is far more common in the Bay Area than in other areas of the State, and many cities in the area are higher than San José
- San José allocates “General Purpose” tax revenue to Special Funds more than other cities

# San José Lags Other Santa Clara County Cities in Many Basic General Fund Tax Revenues Per Capita



# Tax Rates and Allocation Comparisons

Tax Rates and General Fund Allocation							
City	Sales Tax Rate	TOT	TOT Percentage to GF	Conveyance Tax Rate per \$1000 Property Value	Conveyance Tax to GF	Utility Tax Rates	Business Tax Admin Fees
Los Angeles	8.25%	14.00%	14.00%	\$ 4.50	\$4.50	10.00%	none
San Diego	7.75%	10.50%	5.50%	\$ 0.55	\$0.55	n/a	\$ 25 (\$10 renewal)
<b>SAN JOSÉ</b>	<b>8.25%</b>	<b>10.00%</b>	<b>4.00%</b>	<b>\$ 3.30</b>	<b>\$0.00</b>	<b>5.00%</b>	<b>none</b>
Long Beach	8.25%	12.00%	6.00%	\$ 0.55	\$0.55	5.00%	none
Fresno	7.975%	12.00%	12.00%	\$ 0.55	\$0.55	n/a	\$ 10.00
Sacramento	7.75%	12.00%	2.00%	\$ 0.55	\$0.55	7.50%	none
Oakland	8.75%	11.00%	11.00%	\$ 15.00	\$15.00	7.50%	\$ 30.00
Santa Ana	7.75%	9.00%	9.00%	\$ 0.55	\$0.55	6.00%	none
Anaheim	7.75%	15.00%	15.00%	\$ 0.55	\$0.55	n/a	none
Fremont	8.75%	8.00%	8.00%	\$ 0.55	\$0.55	n/a	\$ 30.00
<b>AVERAGE</b>	<b>8.12%</b>	<b>11.35%</b>	<b>8.65%</b>	<b>\$ 2.67</b>		<b>6.83%</b>	
Sunnyvale	8.25%	8.50%	8.50%	\$ 0.55	\$0.55	2.00%	\$56 (renewal \$23)
Santa Clara	8.25%	10.00%	10.00%	\$ 0.55	\$0.55	n/a	none
Milpitas	8.25%	10.00%	8.00%	\$ 0.55	\$0.55	n/a	\$50.00
Mountain View	8.25%	10.00%	10.00%	\$ 3.30	0.00%	3.00%	none

# Parcel Taxes

- Of peer cities, four (Los Angeles, Oakland, Fremont and Anaheim) have special parcel taxes in place for police, fire and street lighting or some combination
- San Jose has a parcel tax for libraries which raises about \$7.00 per capita\*
- The average for parcel tax revenue for cities having such taxes is \$27 per capita\*
- A parcel tax which generated \$15 per capita\* would raise approximately \$14 million in San José

\* Actual tax assessment is on a 'per-household' basis



# Implications From Benchmarking To Date

- Relative to other peer cities data support view that San José has relatively low to average per-capita revenues and expenditure levels
- City is “below market” in several revenue areas
- Expenditure data does not indicate that San Jose spending is atypical for large cities in California
- San José has unique issues with special fund designation of certain revenues, notably the Construction and Conveyance Tax, and the Transient Occupancy Tax
- Tax allocation to General Fund along the lines followed in other cities would have a **major** positive impact
- Lack of City Council policy control over allocations to special funds by virtue of Proposition 218 interpretations complicates strategy development and timeline

# Strategy Development Overview

- Original strategies list combined with stakeholder/survey input totals approximately 211 strategies
- Strategy qualification criteria developed as initial screening device
- Top priority strategies for further analysis have emerged

# Strategy Qualification Criteria

## Qualification Criteria

1. Preliminary benchmarking information shows that San Jose is below market (revenues) or above market (expenditures).
2. Strategy is being used in a best practice jurisdiction or another of the peer jurisdictions.
3. Prior work by budget office or other city department has made a convincing argument for change.
4. Practice is out of alignment with current City objectives or planning.

## Disqualification Criteria

- A. Strategy cannot be effectively implemented in three year time frame.
- B. Strategy would not reduce deficit or if it does would have greater longer run costs.
- C. Strategy is not consistent with current Council three year goals.
- D. Strategy would have a limited impact, and cannot be logically aggregated with similar strategies.

# Moving From Qualified Strategies to Priority Strategies

- Slightly over 100 of 211 suggested strategies are qualified for some level of further analysis
- Many of the unqualified strategies are good ideas but realistically cannot be implemented in three years and should be placed on a longer term work plan
- Need to prioritize qualified strategies based on value to City and implementation potential
- Some smaller scale strategies can be aggregated to meaningful levels, e.g. cost recovery

# TOP PRIORITY STRATEGIES

- Revenue Strategies
- Service Delivery Model Changes
- Expenditure Controls and Shifts
- Service Reductions

# Top Priority Strategies

Preliminary \$ Estimates in Millions

<b><u>REVENUE STRATEGIES</u></b>	
<b><u>Strategy</u></b>	<b><u>Potential</u></b>
Extend Emergency Communication System Support Fee	\$23.4
Adjust Business Tax for Inflation and Modernize the Formula	\$9.8 – \$16.0
Increase Transient Occupancy Tax to Market and Shift to General Fund	\$1.8 – \$8.0
Modernize Utility Tax and / or Bring to Average	\$7.0 – \$39.0
Levy Parcel Tax for Police / EMS Services	\$7.0 – \$14.0
Implement Lighting and Landscape Districts	\$1.0 – \$13.0
Bring Current Fees to Market	\$2.2 – \$10.5

# Top Priority Strategies

Preliminary \$ Estimates in Millions

<b><u>SERVICE DELIVERY MODEL CHANGES</u></b>	
<b><u>Strategy</u></b>	<b><u>Potential</u></b>
Revise Competition Policy and Implement Managed Competition for Service Delivery	\$8.0 – \$20.0
Shift Economic Development / Other Costs to San José Redevelopment Agency	\$1.0 – \$2.0
Eliminate Binding Interest Arbitration	Future Cost Avoidance
Formalize and Implement Rigorous Asset Management Program	\$1.5 – \$4.5
Increase Utilization of Civilian Positions in Police and Fire	TBD
Modify Minimum Fire Staffing Policies in Low Density Settings	TBD

# Top Priority Strategies

Preliminary \$ Estimates in Millions

<b><u>EXPENDITURE CONTROLS AND SHIFTS</u></b>	
<b><u>Strategy</u></b>	<b><u>Potential</u></b>
Shift Construction and Conveyance Tax Funding from Capital Projects to Operating and Maintenance Costs	\$10.0 – \$22.5
Restructure Salary Step Increase System/Employ Market Based Compensation Benchmarks for Entry Level Salaries	\$4.0 – \$10.0
Adopt a Two-Tier Retirement Program	TBD
Implement Health Care Plan Modifications	TBD
Implement Sick Leave Payment Upon Retirement Program Modifications	\$1.5 – \$2.5
Change Prevailing Wage Applications	TBD
Shift Healthy Neighborhood Venture Fund Funding to General Fund	\$5.0 – \$9.0



# Top Priority Strategies

Preliminary \$ Estimates in Millions

<b><u>SERVICE REDUCTIONS</u></b>	
<b><u>Strategy</u></b>	<b><u>Potential</u></b>
Reduce/Eliminate City Services to Funding Capacity	\$15.0 – \$25.0

As part of the City's annual budget process City Service Area and Departmental budget reduction strategies with employee engagement will be developed. The City Manager will bring forward ongoing service reduction or elimination recommendations in the Proposed Operating Budget for City Council consideration as part of the budget review process.

# NEXT STEPS

- Upcoming Activities
- Final Report Elements

# Upcoming Activities

- Present strategies and analysis to four Stakeholder Groups (November 28 and 29)
- Refine strategies and analysis and incorporate Mayor's Budget Shortfall Advisory Group and Stakeholder Group feedback (December)
- Prepare final report (December)
- Release and present final report to Mayor's Budget Shortfall Advisory Group and Stakeholder Groups (January)

# Final Report Elements

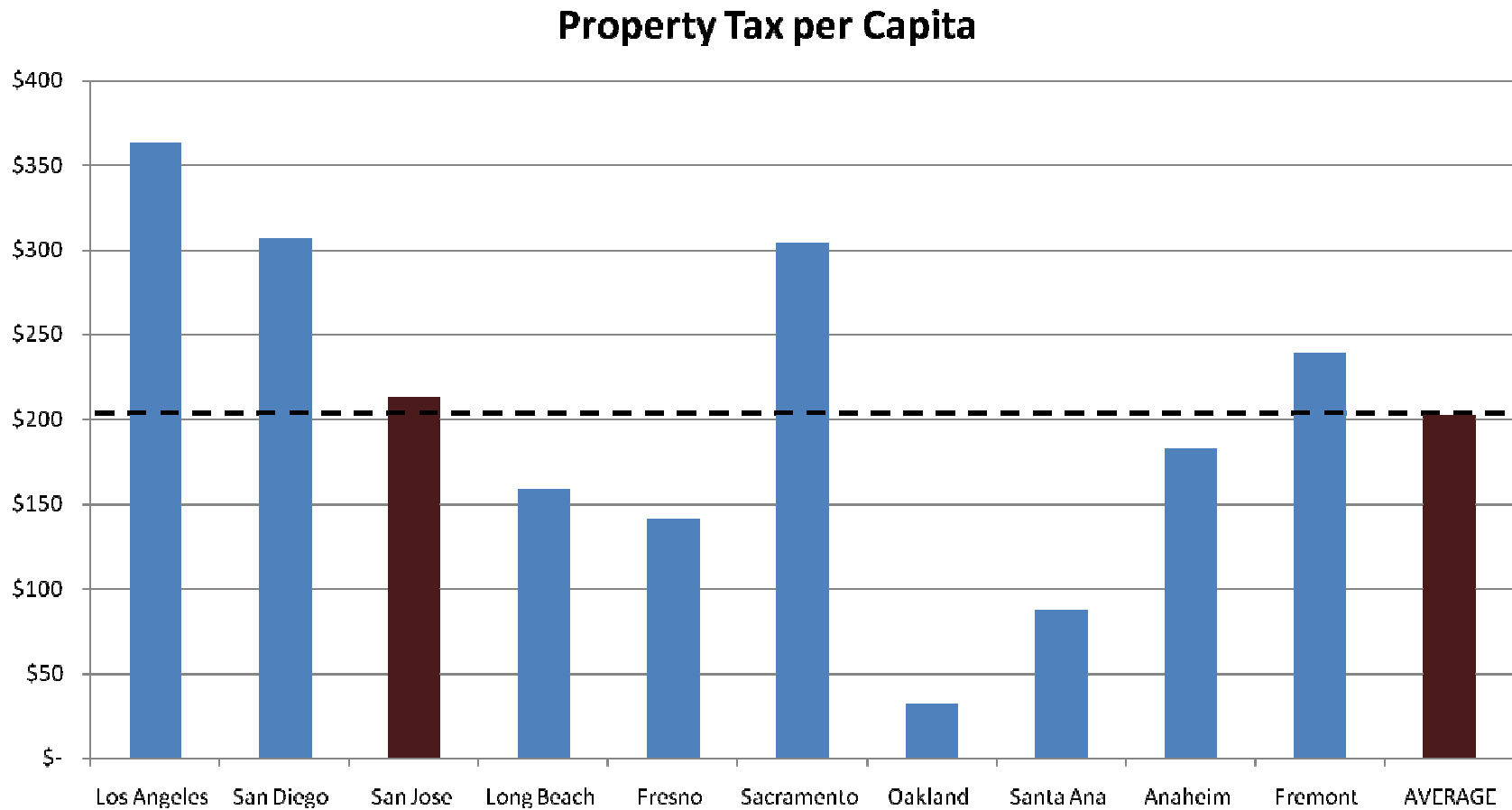
- Strategy
- Priority Rank
- Description/Rationale
- Fiscal Impact
- Implementation Schedule
- Implementation Considerations
- Implementation Costs
- Budget Policies/Principles Review

# Top Priority Strategy Discussion

# APPENDIX

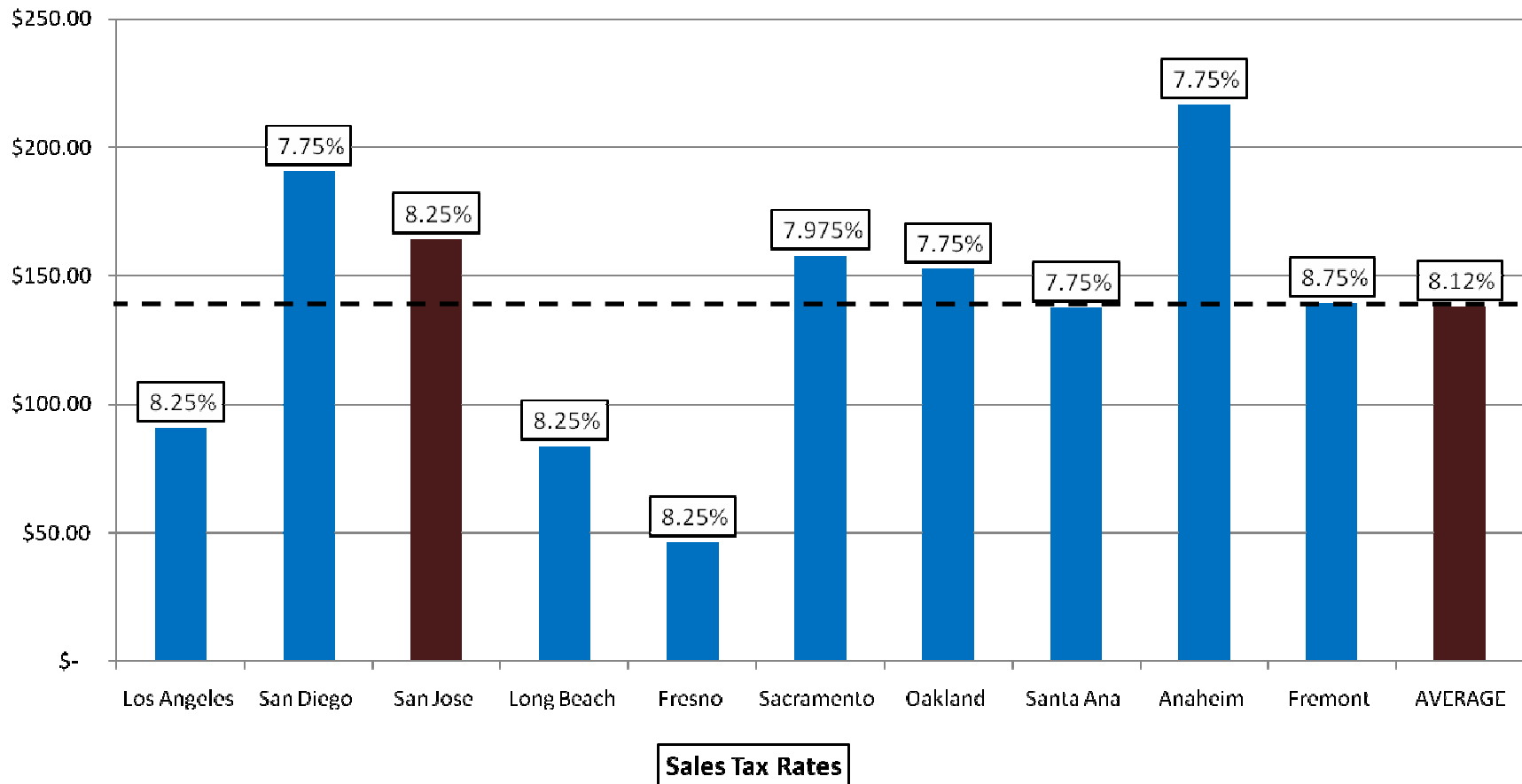
- Property Tax
- Sales Tax
- Utility Tax
- Transient Occupancy Tax
- Business Tax
- Conveyance Tax
- Total Expenditures
- Employees

# Property Tax Revenues are About Average



# Sales Tax is Slightly Above Average for Peers

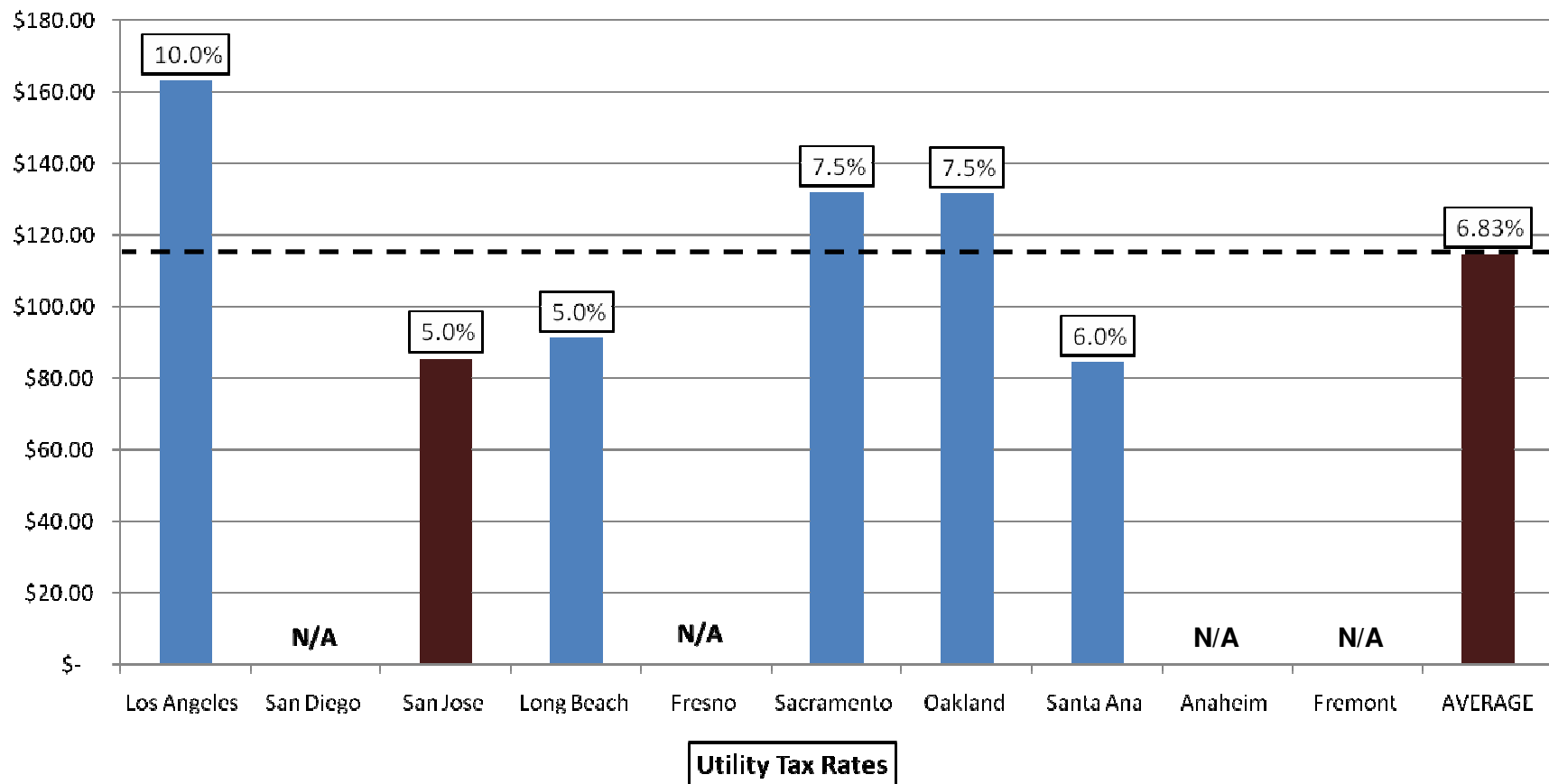
Total Sales Tax per Capita





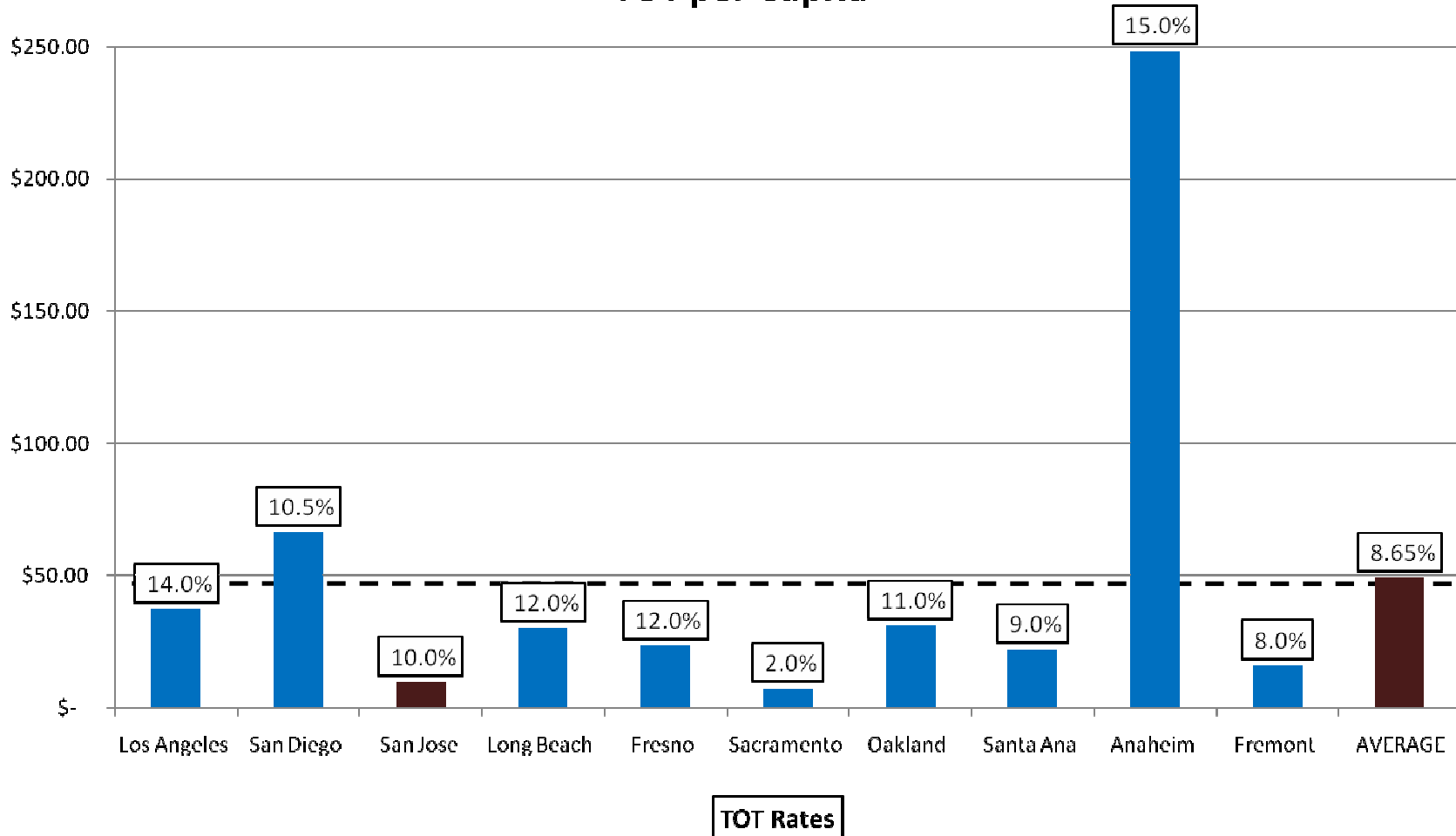
# Utility Tax is Below Average for Peer Cities Having the Tax

Utility Tax per Capita



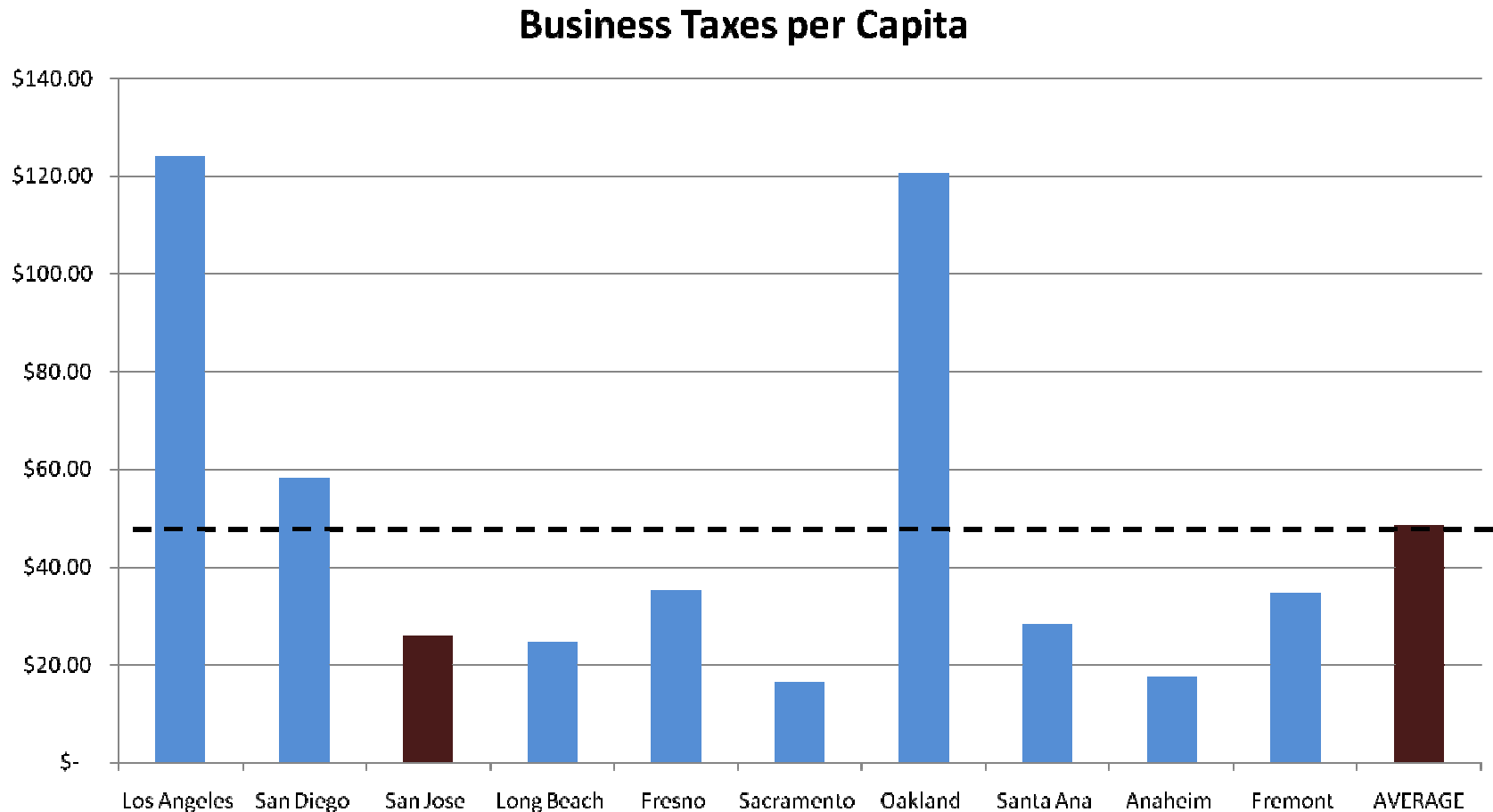
# Transient Occupancy Tax is Below Average

TOT per Capita

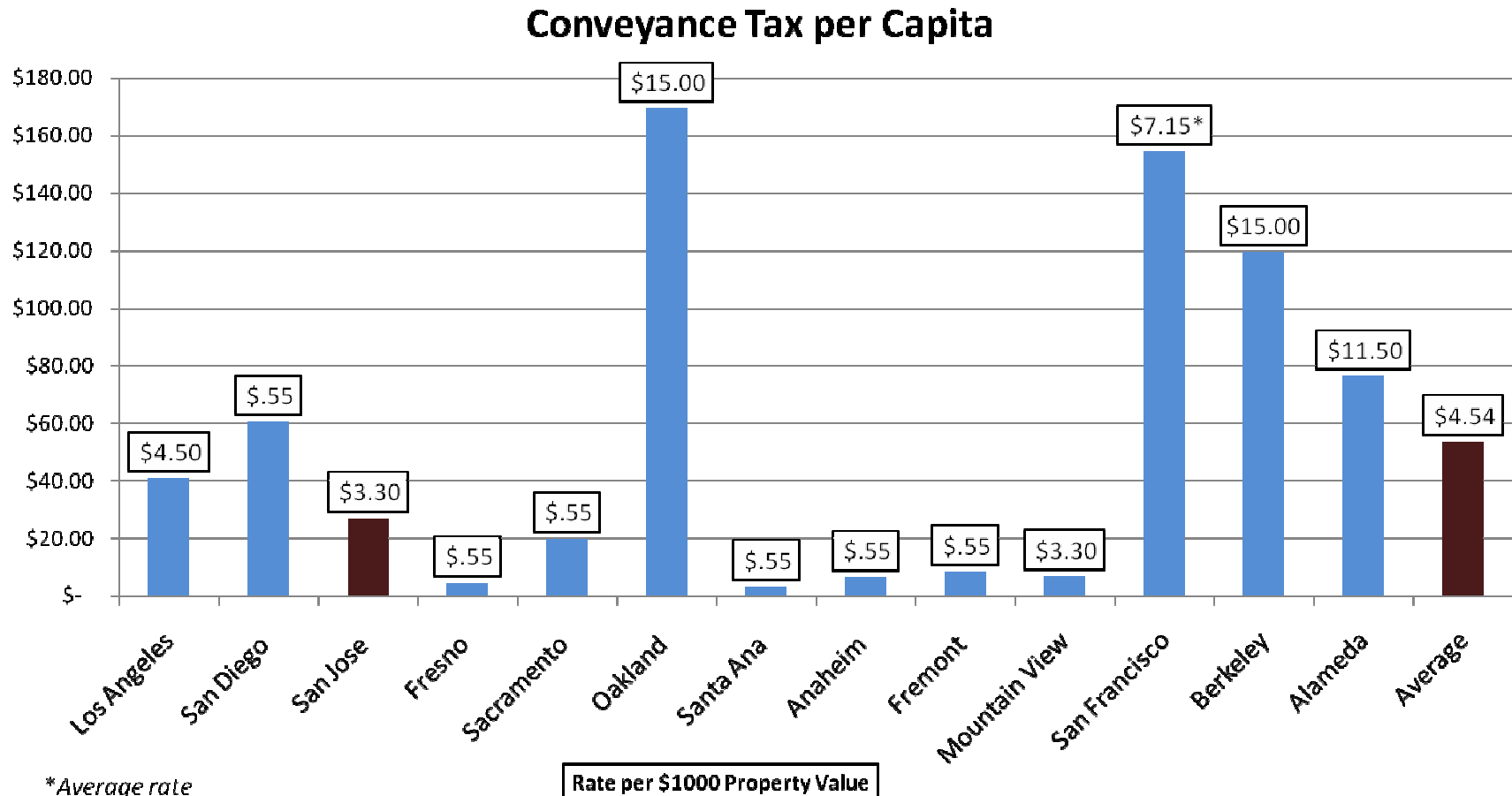


# Business Tax is Below Average

## Especially relative to the largest cities in the State



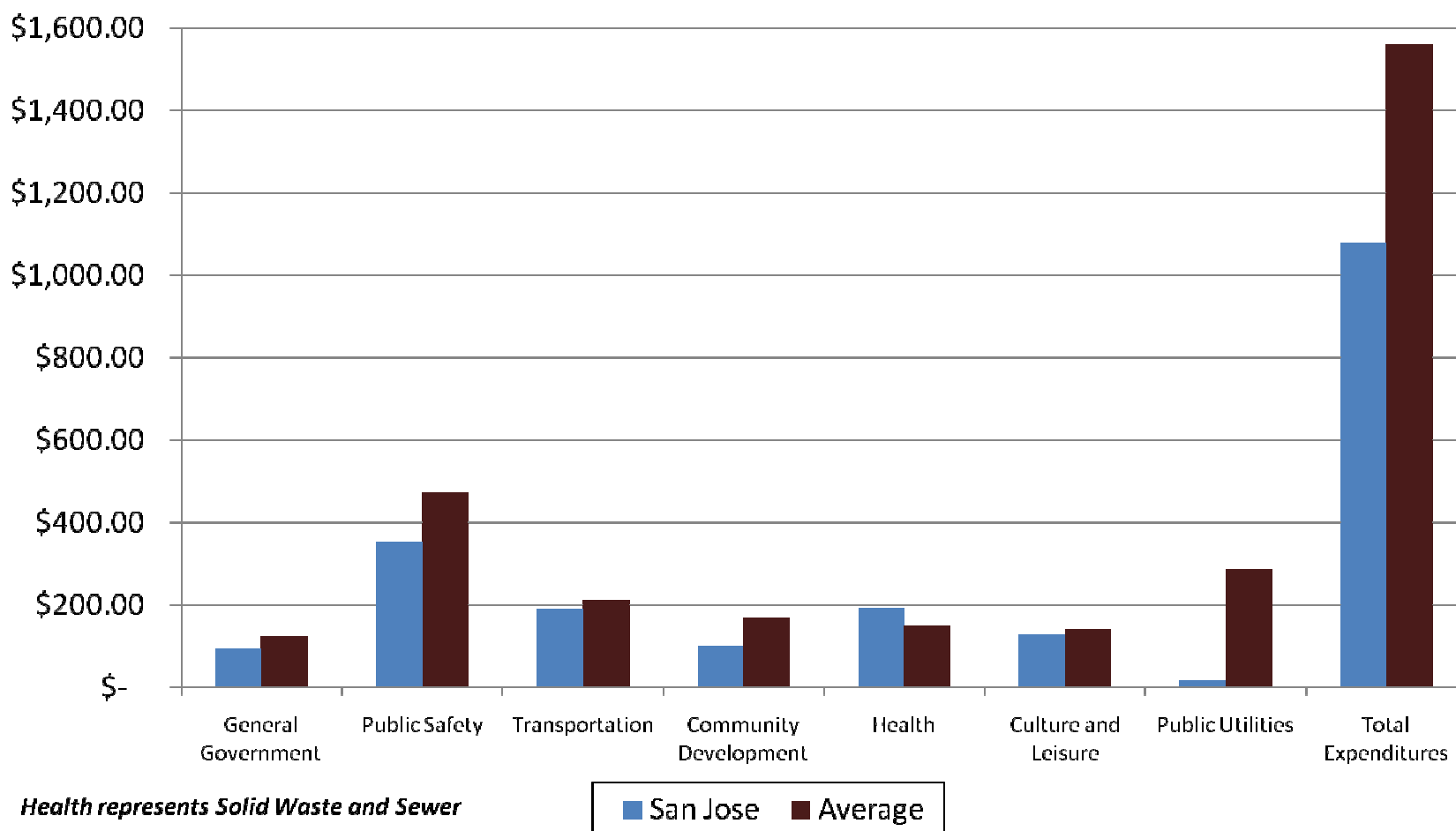
# Conveyance Tax is Above Average (LA / Bay Area and Rest of State Differ)



# Total Expenditure Comparison

## Costs Per Capita San Jose Relative to Large City Peers

2005 State Controllers Data



# San José is Slightly Below Average in Terms of Number of Employees

City	Population	Total FTE	Adjusted FTE*	Adjusted FTE per 1,000 Population
Fremont	201,691	912	912	4.52
Santa Ana	340,024	1,753	1,753	5.16
Anaheim	334,425	2,150	1,788	5.35
San Diego	1,256,951	10,764	8,996	7.16
<b>San José</b>	<b>929,936</b>	<b>6,985</b>	<b>6,985</b>	<b>7.51</b>
Los Angeles	3,849,378	33,898	33,588	8.73
Sacramento	453,781	4,142	4,005	8.83
Fresno	466,714	4,125	4,125	8.84
Long Beach	472,494	5,853	4,907	10.38
Oakland	397,067	4,390	4,339	10.93
<b>Average</b>	<b>870,246</b>	<b>7,497</b>	<b>7,140</b>	<b>7.74</b>

\*Adjustments have been made to eliminate divisions that have no San José equivalent (i.e. City Zoo staff)